158 FERC ¶ 61,016
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, and Colette D. Honorable.

ISO New England Inc. Docket No. ER17-337-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued January 9, 2017)

1. On November 10, 2016, ISO New England Inc. (ISO-NE) and the New England Power Pool (NEPOOL) Participants Committee jointly filed proposed tariff revisions to change the source of natural gas prices used in calculating certain price thresholds in ISO-NE's Transmission, Markets and Services Tariff (Tariff).[1] As discussed below, we accept the proposed revisions, to become effective January 10, 2017, as requested.

I. Background

2. ISO-NE uses the market price of natural gas as an input into several mechanisms in the Tariff. Specifically, ISO-NE uses the price of natural gas to calculate: (1) the daily energy market offer threshold for Import Capacity Resources;[2] (2) the Peak Energy Rent (PER) Strike Price; and (3) the Forward Reserve Threshold Price. ISO-NE currently calculates each of these values daily using the daily Algonquin Gas Transmission, LLC (Algonquin) Citygates natural gas price index, purchased by contract from Intercontinental Exchange (ICE), also known as the AGT-CG index. A significant

[1] ISO New England Inc., FERC FPA Electric Tariff, ISO New England Inc. Transmission, Markets and Services Tariff, III.13.6, III.13.6 Rights and Obligations of Capacity Resources, 29.0.0, III.13.7, III.13.7 Performance, Payments and Charges in the FCM, 47.0.0.

[2] Capitalized terms used but not defined herein have the meaning ascribed to them in the Tariff.

portion of New England's gas-fired generation fleet draws from the Algonquin interstate natural gas pipeline system.[3]

3. The PER Strike Price is used in the PER Adjustment, which is intended to act as a hedge for load against price spikes in the energy market.[4] The PER Adjustment is designed to approximate the additional revenues that a hypothetical proxy peaking unit would earn in the real-time energy market during the highest-priced hours reflecting scarcity, and to return those revenues to load. To develop the PER Adjustment, each day ISO-NE calculates a PER Strike Price that is slightly higher than the marginal operating cost of the most expensive resource in New England, i.e., the hypothetical proxy peaking unit.[5]

II. Proposed Tariff Revisions

4. ISO-NE states that, while it uses various sources of natural gas prices for some purposes, ISO-NE relies primarily on the daily AGT-CG gas price index as an element of the three Tariff mechanisms noted above. ISO-NE contends that, historically, the price formed at the AGT-CG hub has been a good representation of the cost to acquire natural gas in New England, as the index has been highly liquid, with many trades and high volumes of transactions each day. However, according to ISO-NE, natural gas trading at the AGT-CG location declined in 2016 and failed to form a daily price index value on 55 percent of the days from April through September of 2016, making the index unsuitable to calculate the three Tariff mechanisms due to the lack of liquidity. ISO-NE asserts that it is possible that the location no longer satisfies the activity levels the Commission requires for indices used in jurisdictional tariffs.[6]

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[3] Transmittal at 4.

[4] *Devon Power LLC*, 115 FERC ¶ 61,340, at PP 24, 29 (2006).

[5] *See* ISO New England Inc., FERC FPA Electric Tariff, ISO New England Inc. Transmission, Markets and Services Tariff, sections III.13.7.2.7.1.1.1 and III.13.7.2.7.1.1.2, [III.13.7, III.13.7 Performance, Payments and Charges in the FCM, 46.0.0]. For each hour in which the real-time Locational Marginal Price (LMP) exceeds that strike price, ISO-NE calculates an hourly PER value equal to the difference between the real-time LMP and the PER Strike Price, adjusted by a scaling factor and an availability factor. For each month, the capacity payment each capacity supplier receives is reduced by a rolling average of the monthly PER values for the previous 12 months.

[6] ISO-NE Ewing Testimony at 4 (citing *Price Discovery in Natural Gas and Electric Markets*, 109 FERC ¶ 61,184, at P 66 (2004)).

5. ISO-NE explains that in January 2016, ICE introduced a new natural gas trading hub for New England, the AGT-CG (Non-G) hub, which excludes transactions requiring delivery of natural gas on the "G" lateral of the Algonquin pipeline.[7] ISO-NE contends that most of the trading on the Algonquin pipeline has shifted to that location and away from the AGT-CG location. ISO-NE states that this new index complies with the Commission's availability and liquidity thresholds for indices used in jurisdictional tariffs. ISO-NE notes that ICE is an approved price index developer and a review of a recent 90-day period (August 3, 2016 through October 31, 2016) shows that a daily price index was calculated at the AGT-CG (Non-G) hub every day.[8] ISO-NE also notes that the average daily trade volume for non-holiday weekdays during this period was approximately 71,000 MMBtus and that the AGT-CG (Non-G) index has a consistently sufficient trade volume to ensure that natural gas prices used in calculating the Tariff thresholds will be representative of the cost to acquire natural gas in New England.

III. Notice, Interventions, Comments and Protests

6. Notice of the filing was published in the *Federal Register*, 81 Fed. Reg. 81,754 (2016), with interventions and protests due on or before December 1, 2016. Exelon Corporation; Entergy Nuclear Power Marketing, LLC; National Grid; NRG Power Marketing LLC and GenOn Energy Management, LLC; Eversource Energy Service Company; and Dominion Resource Services Company (Dominion) filed timely motions to intervene. On November 25, 2016, NEPOOL filed a supplement to ISO-NE and NEPOOL's joint filing. On December 1, 2016, Dominion submitted a protest.

7. On December 15, 2016, NEPOOL submitted an answer to Dominion's protest. On December 16, 2016, ISO-NE submitted an answer to Dominion's protest. On December 20, 2016, Dominion submitted an answer to ISO-NE's answer.

A. Dominion Protest

8. Dominion generally supports ISO-NE's filing, but recommends that the Commission reject one aspect of the proposal as unjust and unreasonable and unduly discriminatory. Specifically, Dominion argues that the proposal to use the AGT-CG (Non-G) index in the calculation of the PER Strike Price does not conform to the existing PER requirements in the tariff. Dominion asserts that the intent of the PER Strike Price

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[7] Transmittal at 4. ISO-NE explains that the G lateral can experience transportation difficulties on peak winter days.

[8] ISO-NE Ewing Testimony at 4 (citing *Price Discovery in Natural Gas and Electric Markets*, 109 FERC ¶ 61,184 at P 39, 59).

is to represent the cost of the "PER Proxy Unit," which it states should be at a price slightly higher than the cost of the marginal generating unit in the region that would be dispatched as the system enters a scarcity condition.[9] Dominion further states that, if the PER Strike Price does not approximate the cost of the marginal resource as the system approaches a scarcity condition, it would subject capacity resources to unwarranted PER penalties.

9. Dominion avers that ISO-NE fails to present analysis or evidence that using the AGT-CG (Non-G) hub is most likely to represent the cost of natural gas for the PER Proxy Unit when the natural gas price exceeds the price of oil, i.e., the marginal resource as the system approaches scarcity. Dominion asserts that it is likely that the highest priced index will fluctuate between AGT-CG and AGT-CG (Non-G) depending on market and system conditions and that such price separation could be significant as the system approaches scarcity. Dominion contends that generators located on the Algonquin "G" lateral may be closer to the marginal unit as the system approaches scarcity, particularly with the addition of new capacity on Algonquin's mainline as a result of the "Algonquin Incremental Market" expansion project.[10]

10. Dominion contends that, if the natural gas price used to calculate the PER Strike Price fails to approximate the fuel costs of the marginal resource, it could have a discriminatory effect on generators that must purchase higher priced natural gas, i.e., if the real-time price exceeds the PER Strike Price but remains below the price of the higher priced generators. Dominion suggests that these higher priced generators would be penalized more because they would not be dispatched for energy but still subject to the PER penalties.[11]

11. Dominion suggests that, in the alternative, the Commission should require ISO-NE to revise the proposed tariff language to use the higher of the AGT-CG and AGT-CG (Non-G) indices to calculate the PER Strike Price. Dominion argues that this alternative would ensure that when natural gas prices exceed oil prices, the natural gas price used in the PER Strike Price calculation would approximate the cost of the PER Proxy Unit in accordance with the Tariff.[12]

[9] Dominion Protest at 5 (citing ISO-NE Tariff, Sec. III.13.7.2.7.1.1.1. (b)(iii)).

[10] Dominion Protest at 5.

[11] *Id.* at 6.

[12] *Id.*

B. **Answers**

12. NEPOOL and ISO-NE request that the Commission reject Dominion's protest. Both NEPOOL and ISO-NE argue that while Dominion's alternative proposal may be just and reasonable, the issue before the Commission is whether the Tariff revisions ISO-NE and NEPOOL proposed are just and reasonable.[13] NEPOOL states that it would support an ISO-NE evaluation of the effectiveness of the natural gas index change, based on actual experience with use of the AGT-CG (Non-G) index, to be presented to stakeholders in the NEPOOL stakeholder process.[14]

13. Both NEPOOL and ISO-NE contend that Dominion's alternative proposal fails to recognize that the AGT-CG location is illiquid.[15] ISO-NE argues that Dominion fails to mention or explain how the AGT-CG location satisfies the Commission's price index criteria. ISO-NE explains that Dominion's alternative proposal would use the AGT-CG index price any time it is higher than the AGT-CG (non-G) index price, even if a single trade set that higher price.[16]

14. ISO-NE further argues that neither the substance nor structure of the PER Strike Price is affected in any way by the Tariff revisions proposed here. ISO-NE explains that the current price of natural gas is an input to the calculation of the PER Strike Price and the proposed Tariff revisions only replace the current natural gas price data source, an index that ISO-NE claims has become illiquid and unreliable, with data from a more liquid index that meets the Commission's price index criteria.[17]

15. Dominion states that ISO-NE misinterprets its alternative proposal and that Dominion agrees that there could be some volume threshold level required to prohibit the use of the AGT-CG index on an illiquid day. Dominion argues that recent trading activity shows a significant level of trading at the AGT-CG on peak days and that these

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[13] NEPOOL Answer at 2; ISO-NE Answer at 2.

[14] NEPOOL Answer at 5.

[15] NEPOOL Answer at 4; ISO-NE Answer at 3-5.

[16] ISO-NE Answer at 4.

[17] *Id.* at 5-6.

trading volumes can be used to develop an appropriate threshold level to address ISO-NE's liquidity concerns.[18]

IV. Discussion

A. Procedural Matters

16. Rule 213(a)(2) of the Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2016), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answers of NEPOOL, ISO-NE, and Dominion because they have provided information that has assisted us in our decision-making process.

B. Substantive Matters

17. We accept ISO-NE's proposed Tariff revisions, to be effective January 10, 2017, as requested.

18. ISO-NE proposes to use the price index from a new natural gas trading location, the AGT-CG (non-G), to calculate certain tariff thresholds, including the PER Strike Price. ISO-NE explains that the natural gas price index it currently uses, the AGT-CG, has experienced significantly less trading over the past year, such that the index is no longer sufficiently liquid to be used to calculate the two threshold prices and the PER Strike Price. We find that ISO-NE's proposal is just and reasonable because it changes the natural gas price index used for these three Tariff mechanisms from one that is rarely liquid to one that is reliably liquid and satisfies the Commission's minimum criteria for indices used in jurisdictional tariffs, as discussed below.

19. Dominion protests ISO-NE's proposal to use a new price index to calculate the PER Strike Price and instead proposes that ISO-NE use the higher of the AGT-CG and AGT-CG (non-G) location prices. As an initial matter, because we find ISO-NE's proposal to be just and reasonable, we need not entertain alternative proposals.[19]

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[18] Dominion Answer at 2.

[19] *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984), *cert. denied*, 469 U.S. 917 (1984); *OXY USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) ("[T]he Commission may approve the methodology proposed in the settlement agreement if it is 'just and reasonable'; it need not be the only reasonable methodology or even the most accurate.").

20. Furthermore, in order for an index location to be used in the jurisdictional tariff, it must meet at least one of the Commission's conditions for minimum levels of activity at a particular trading location. Specifically, those conditions are: (1) average daily volume traded of a least 25,000 MMBtus/day for gas or 2,000 MWh/day for power; (2) average daily number of transactions of five, eight, ten, or more (depending on whether it is a daily, weekly, or monthly index); and (3) average daily number of counterparties of five, eight, ten, or more (depending on whether it is a daily, weekly, or monthly index).[20] Dominion has failed to explain how the continued use of the AGT-CG price index meets at least one of these criteria.

21. Dominion argues that the PER Strike Price should represent the costs of the marginal unit as the system approaches scarcity conditions, and that ISO-NE and NEPOOL's proposal fails to do so. Dominion argues that using the AGT-CG (non-G) hub index would not represent the hypothetical proxy peaking unit. Dominion states that recent trading at the AGT-CG location shows a significant volume of trading on peak days, which could address ISO-NE's liquidity concerns. We find that sound market design requires that the PER Strike Price be based on a liquid index that reliably forms a price that meets the Commission's minimum conditions for an index, as discussed above. We reject Dominion's alternative proposal because Dominion has not provided any evidence that the continued use of the AGT-CG index would meet the Commission's minimum index conditions.

The Commission orders:

ISO-NE's proposed tariff revisions are hereby accepted effective January 10, 2017, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

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[20] *See Price Discovery in Natural Gas and Electric Markets*, 109 FERC 61,184 at P 66.